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UNCLAS HARARE 000224

SIPDIS

STATE FOR AF/S AND AF/EX  
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER  
USDOC FOR AMANDA HILLIGAS  
TREASURY FOR OREN WYCHE-SHAW  
PASS USTR FLORIZELLE LISER  
STATE PASS USAID FOR MARJORIE COPSON

E. O. 12958: N/A

TAGS: [ECON](#) [EINV](#) [ETRD](#) [PGOV](#) [ZI](#)

SUBJECT: Demand for US dollars still growing

1. Summary: Economists, bankers and businessmen around Zimbabwe all ask one question: How soon will the Reserve Bank (RBZ) run out of forex to fuel its new auction system? End Summary.

2. Eligible importers are trying to gobble up everything they can at the Monday and Thursday auctions, since the zimdollar trades on the auction floor at an overvalued Z\$3,600:US\$. The parallel market is making a rapid comeback even without the participation of most banks, with rates heading fast toward Z\$5,000:US\$. Demand at the RBZ's currency auctions continues to grow:

Week of	Demand
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1/12	1.7 million
1/19	8.2
1/26	17.2
2/2	18.7

While the RBZ has been mum on incoming export receipts, we have not encountered a single knowledgeable observer who believes the portion of export receipts channeled to the auction floor (usually 25 percent) can cover US\$20 million of import demands each week. In fact, the RBZ has kept demand for forex to a minimum by allowing banks to place bids only on behalf of certain importers.

3. At the same time, each week the GOZ seems to face urgent new demands for its own forex reserves. The International Air Transport Association (IATA) recently suspended Air Zimbabwe (preventing ticketing on other carriers) pending payment of US\$1.3 million. Energy parastatal ZESA's spokesman said both South Africa's Eskom and Mozambique's Hydro Caborra Bassa have been pressuring the GOZ to pay down arrears of US\$42 million. (ZESA's total arrears now exceed US\$400 million.)

Comment

4. By any measure (inflation, cross-border price comparisons, parity purchasing power), the zimdollar is now heavily overvalued. With inflation continuing to surge, most exports are uncompetitive at the present blend rate of around Z\$2700:US\$ (exporters still must surrender 25 percent of proceeds at Z\$824:US\$). One exporter wrote in the Daily News this week that the wholesale price of a box of locally-produced matches is now Z\$149 plus VAT; an Indian company offered to supply him in (including VAT and transport to Harare) for Z\$39 - when converted at the present auction rate. That's makes Zimbabwe a four-fold more expensive manufacturer than India, at least in this particular case. At some point, either the auction rate or a more accessible parallel rate will adjust for these distortions. Until then, Zimbabwe will be an uncharacteristically high-cost environment.

Sullivan